

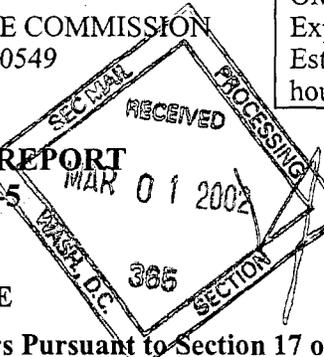


UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**

SEC FILE NUMBER  
8-52980



FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 01/01/01 AND ENDING 12/31/01  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER - DEALER:  
Coutts Securities Inc.

OFFICIAL USE ONLY  
FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

701 Brickell Avenue, Suite 2300

(No. and Street)

Miami  
(City)

FL  
(State)

33131  
(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Keith A.D. Harrison

(305) 347-7224  
(Area Code - Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Deloitte & Touche LLP

(Name - if individual, state last, first, middle name)

200 South Biscayne Blvd., Suite 400, Miami,  
(Address) (City)

FL  
(State)

33131-2310  
(Zip Code)

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

PROCESSED  
APR 04 2002  
THOMSON  
FINANCIAL

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\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

**COUTTS SECURITIES INC.**  
**(A Wholly Owned Subsidiary of NatWest Markets Group Inc.)**

**TABLE OF CONTENTS**

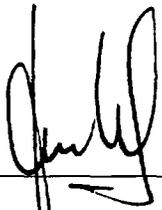
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This report contains (check all applicable boxes):

- (x) (a) Facing Page
  - Independent Auditors' Report
- (x) (b) Statements of Financial Condition
- (x) (c) Statements of Operations
- (x) (d) Statements of Changes in Stockholder's Equity
- (x) (e) Statements of Cash Flows
  - Notes to Financial Statements
- ( ) (f) Statements of Changes in Liabilities Subordinated to Claims of General Creditors  
(Not Applicable)
- (x) (g) Computation of Net Capital for Brokers and Dealers Pursuant to Rule 15c3-1 under the Securities Exchange Act of 1934
- (x) (h) Computation for Determination of Reserve Requirements for Brokers and Dealers Pursuant to Rule 15c3-3 under the Securities Exchange Act of 1934 (included in Note 2 to the Financial Statements)
- ( ) (i) Information Relating to the Possession or Control Requirements for Brokers and Dealers Pursuant to Rule 15c3-3 under the Securities Exchange Act of 1934 (Not Applicable)
- (x) (j) A Reconciliation, including Appropriate Explanations, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Rule 15c3-3 (included in item (h))
- ( ) (k) A Reconciliation Between the Audited and Unaudited Statements of Financial Condition with Respect to Methods of Consolidation (Not Applicable)
- (x) (l) An Oath or Affirmation
- ( ) (m) Copy of the SIPC Supplemental Report (Not Applicable)
- (x) (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit (included in item (o))
- (x) (o) Independent Auditors' Report on Internal Accounting Control
- ( ) (p) Schedule of Segregation Requirements and Funds in Segregation - Customer's Regulated Commodity Futures Account Pursuant to Rule 171-5 (Not Applicable)

OATH OR AFFIRMATION

I, Leonel J. Narea, President, swear that, to the best of my knowledge and belief, the accompanying financial statements and supplemental schedule pertaining to Coutts Securities Inc. (the "Company") as of and for the years ended December 31, 2001 and 2000 are true and correct. I further swear that neither the Company nor any officer or director has any proprietary interest in any account classified solely as that of a customer.

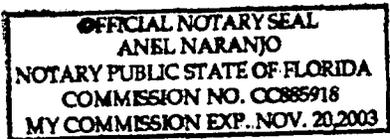
  
\_\_\_\_\_  
Signature

2/27/02  
Date

\_\_\_\_\_  
President  
Title

Subscribed and sworn to before me this 27 day of February, 2002.

  
\_\_\_\_\_  
Notary Public



## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholder of  
Coutts Securities Inc.  
Miami, Florida:

We have audited the accompanying financial statements of Coutts Securities Inc. (the "Company"), a wholly owned subsidiary of NatWest Markets Group Inc., for the years ended December 31, 2001 and 2000, that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934:

	Page
Statements of Financial Condition	2
Statements of Operations	3
Statements of Changes in Stockholder's Equity	4
Statements of Cash Flows	5

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplemental Schedule of Computation of Net Capital for Brokers and Dealers pursuant to Rule 15c3-1 under the Securities Exchange Act of 1934 as of December 31, 2001 listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. This supplemental schedule is the responsibility of the Company's management. Such supplemental schedule has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

*Deloitte & Touche LLP*

February 22, 2002

**COUTTS SECURITIES INC.**  
**(A Wholly Owned Subsidiary of NatWest Markets Group Inc.)**

**STATEMENTS OF FINANCIAL CONDITION**  
**DECEMBER 31, 2001 AND 2000**

<b>ASSETS</b>	<b>2001</b>	<b>2000</b>
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 5,260,336	\$ 6,777,738
Cash deposit with clearing organization	100,000	
Receivable from clearing organization	802,523	
Due from affiliate	255,349	
Due from parent in lieu of income taxes	345,258	885,391
Other	4,198	15,709
	<u>                    </u>	<u>                    </u>
<b>TOTAL</b>	<u><u>\$ 6,767,664</u></u>	<u><u>\$ 7,678,838</u></u>
 <b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
<b>LIABILITIES:</b>		
Accrued and other liabilities	<u>\$ 54,103</u>	<u>\$ 323,571</u>
 <b>COMMITMENTS AND CONTINGENCIES (Note 5)</b>		
<b>STOCKHOLDER'S EQUITY:</b>		
Common stock, \$1 par value, 1,000 shares authorized, issued and outstanding	1,000	1,000
Additional paid-in capital	7,383,959	7,383,959
Accumulated deficit since January 1, 2000	<u>(671,398)</u>	<u>(29,692)</u>
	<u>                    </u>	<u>                    </u>
Total stockholder's equity	<u>6,713,561</u>	<u>7,355,267</u>
<b>TOTAL</b>	<u><u>\$ 6,767,664</u></u>	<u><u>\$ 7,678,838</u></u>

See accompanying notes to financial statements.

**COUTTS SECURITIES INC.**  
**(A Wholly Owned Subsidiary of NatWest Markets Group Inc.)**

**STATEMENTS OF OPERATIONS**  
**FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

	2001	2000
REVENUES:		
Commissions	\$ 1,872,538	
Interest income	258,283	\$ 398,499
Other	3,201	53,664
	<u>2,134,022</u>	<u>452,163</u>
Total revenues		
OPERATING EXPENSES:		
Management fee	2,800,000	
Start-up and organization costs	150,000	450,000
General and administrative expenses	171,728	47,564
	<u>3,121,728</u>	<u>497,564</u>
Total operating expenses		
LOSS BEFORE INCOME TAXES	(987,706)	(45,401)
BENEFIT FROM INCOME TAXES	<u>(346,000)</u>	<u>(15,709)</u>
NET LOSS	<u>\$ (641,706)</u>	<u>\$ (29,692)</u>

See accompanying notes to financial statements.

**COUTTS SECURITIES INC.**  
**(A Wholly Owned Subsidiary of NatWest Markets Group Inc.)**

**STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total
BALANCES, DECEMBER 31, 1999	1,000	\$ 1,000	\$ 19,799,000	\$ (12,415,041)	\$ 7,384,959
Reclassification of deficit upon reorganization			(12,415,041)	12,415,041	
Net loss				(29,692)	(29,692)
BALANCES, DECEMBER 31, 2000	1,000	1,000	7,383,959	(29,692)	7,355,267
Net loss				(641,706)	(641,706)
BALANCES, DECEMBER 31, 2001	<u>1,000</u>	<u>\$ 1,000</u>	<u>\$ 7,383,959</u>	<u>\$ (671,398)</u>	<u>\$ 6,713,561</u>

See accompanying notes to financial statements.

**COUTTS SECURITIES INC.**  
**(A Wholly Owned Subsidiary of NatWest Markets Group Inc.)**

**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

	2001	2000
OPERATING ACTIVITIES:		
Net loss	\$ (641,706)	\$ (29,692)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Gain on sale of asset		(53,664)
Changes in assets and liabilities:		
Increase in cash deposit with clearing organization	(100,000)	
Increase in receivable from clearing organization	(802,523)	
Increase in due from affiliate	(255,349)	
Decrease (increase) in due from parent in lieu of income taxes	540,133	(87,512)
Decrease in other assets	11,511	
(Decrease) increase in accrued and other liabilities	(269,468)	312,283
Net cash (used in) provided by operating activities	(1,517,402)	141,415
INVESTING ACTIVITIES:		
Proceeds from sale of asset		562,480
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,517,402)	703,895
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	6,777,738	6,073,843
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 5,260,336</u>	<u>\$ 6,777,738</u>

See accompanying notes to financial statements.

**COUTTS SECURITIES INC.**  
**(A Wholly Owned Subsidiary of NatWest Markets Group Inc.)**

**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

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**1. GENERAL**

Coutts Securities Inc. (the "Company") was formerly known as Coutts (USA) Inc., a company established in the state of Delaware. The Company is a wholly owned subsidiary of NatWest Markets Group Inc. ("NatWest") and was incorporated on January 10, 1995. The Company's ultimate parent is the Royal Bank of Scotland Group plc, a company incorporated in Scotland. The Company was a management company to certain affiliated banking subsidiaries which have subsequently ceased operations. As a result, the Company became inactive. On September 6, 2000, the Company changed its name from Coutts (USA) Inc. to Coutts Securities Inc. and the Company's stockholder approved a reorganization (effective as of January 1, 2000) of the Company's capital accounts that resulted in the transfer of the Company's accumulated deficit at that date of approximately \$12.4 million to additional paid-in capital.

In May 2001, the Company became a registered securities broker-dealer subject to regulations under the Securities Exchange Act of 1934 and a member of the National Association of Securities Dealers ("NASD"). Following the registration, the Company commenced the business of buying and selling securities on behalf of customers of its banking affiliate, Coutts (USA) International (a federally chartered Edge Act Bank).

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America ("GAAP"). The following summarizes the more significant accounting and reporting policies:

*Use of Estimates* - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Cash and Cash Equivalents* - Cash and cash equivalents include all highly-liquid investments purchased with an original maturity of three months or less.

*Cash Deposit with Clearing Organization* - Cash of \$100,000 has been segregated in an account with the clearing organization for the benefit of customers under Rule 15c3-3 of the Securities and Exchange Commission.

*Receivable from Clearing Organization* - Receivable from clearing organization consists primarily of fees and commissions collected by the clearing organization on behalf of the Company that have not been remitted to the Company as of December 31, 2001.

*Securities Transactions and Commissions* - Customers' securities and commodities transactions are reported by the Company's clearing agent on a settlement date basis with related commission income and clearing expenses recorded on a trade date basis.

**Income Taxes** - The Company is included in the consolidated federal income tax return filed by NatWest. Federal income taxes are calculated as if the companies filed on a separate return basis, and the amount of current tax or benefit calculated is either remitted to or received from NatWest. The amount of current and deferred taxes payable or refundable is recognized as of the date of the financial statements, utilizing currently enacted tax laws and rates. Deferred tax expenses or benefits are recognized in the financial statements for the changes in deferred tax liabilities or assets between years.

**Start-up and Organizational Costs** - Start-up and organizational costs were accounted for under the provisions of American Institute of Certified Public Accountants' Statement of Position ("SOP") 98-5, *Reporting on the Costs of Start-Up Activities*. In connection with the Company's change in operations, the Company incurred approximately \$150,000 and \$176,000 in start-up and organizational costs related to professional fees, travel, and training of its employees during the years ended December 31, 2001 and 2000, respectively.

In addition, computer upgrades and enhancement costs were accounted for under the provisions of SOP 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. During 2000, the Company incurred and expensed approximately \$274,000 related to computer system upgrades which are included in start-up and organizational costs in the accompanying 2000 statement of operations. These costs were incurred to accommodate the processing of the Company's transactions as a broker-dealer.

**New Accounting Pronouncement** - In July 2000, the Financial Accounting Standards Board ("FASB") issued Statement No. 138, *Accounting for Certain Derivative Instruments and Hedging Activities* (an amendment to FASB Statement No. 133), to provide additional guidance and to exclude certain provisions. FASB Statement No. 133 requires the recognition of all derivatives as either assets or liabilities measured at fair value. The adoption of FASB Statement No. 133, as amended, on January 1, 2001 did not have a material impact on the Company's financial statements.

### 3. RELATED PARTY TRANSACTIONS

**Management Fee** - During May 2001, the Company entered into an agreement with an affiliate, Coutts (USA) International ("Coutts"), in which the Company agreed to pay Coutts a monthly management fee of \$400,000. Under the agreement, Coutts provides the Company with certain marketing, administrative, financial and information technology support. During the year ended December 31, 2001, the Company paid \$2,800,000 in management fees to Coutts.

**Commissions** - In the ordinary course of business, the Company offers to its customers certain financial products of its affiliated companies, such as mutual funds. The Company earns commissions for the placement of customer's funds into these financial products. During the year ended December 31, 2001, the Company earned \$271,584 in commissions from such affiliated companies. Due from affiliate includes commissions earned but not paid as of December 31, 2001.

### 4. NET CAPITAL REQUIREMENTS

The Company is subject to the Securities and Exchange Commission's Uniform Net Capital Rule (SEC Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1 (and the rule of the "applicable" exchange also provides that the equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1). At December 31, 2001, the Company had net capital of \$6,108,756, which was \$5,858,756 in excess of its required net capital of \$250,000. At December 31, 2001, the Company's ratio of aggregate indebtedness to net capital was 0.9%.

**5. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET CREDIT RISK**

As a securities broker, the Company is engaged in buying and selling securities for a diverse group of customers including financial institutions. The Company introduces these customer transactions for clearance through an independent clearing agent on a fully-disclosed basis.

The Company's exposure to credit risk associated with nonperformance of customers in fulfilling their contractual obligations pursuant to securities transactions can be directly impacted by volatile trading markets, which may impair the Company's ability to liquidate the customer's collateral at an amount equal to the original contracted amount. Agreements between the Company and its clearing agent provide that the Company is obligated to assume any exposure related to such nonperformance by the Company's customers. The Company monitors its customer activity by reviewing information it receives from its clearing agent on a daily basis, and seeks to control the aforementioned risks by requiring all margin accounts to be sanctioned as to customers and all debit amounts by the Company's credit officers. The credit officers are independent of the marketing registered representatives who directly manage the relationship with clients. The Company has established policies on the margins required and the point at which positions are closed out. As of December 31, 2001, no margin debit balances were outstanding at the clearing agent of the Company.

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**COUTTS SECURITIES INC.**  
**(A Wholly Owned Subsidiary of NatWest Markets Group Inc.)**

**SUPPLEMENTAL SCHEDULE OF COMPUTATION OF NET CAPITAL  
FOR BROKERS AND DEALERS PURSUANT TO RULE 15c3-1  
UNDER THE SECURITIES EXCHANGE ACT OF 1934  
AS OF DECEMBER 31, 2001**

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STOCKHOLDER'S EQUITY	<u>\$ 6,713,561</u>
DEDUCT NONALLOWABLE ASSETS:	
Due from affiliate	255,349
Due from parent in lieu of income taxes	345,258
Other assets	<u>4,198</u>
Total nonallowable assets	<u>604,805</u>
NET CAPITAL	<u><u>\$ 6,108,756</u></u>
AMOUNTS INCLUDED IN TOTAL LIABILITIES WHICH REPRESENT AGGREGATE INDEBTEDNESS:	
Accrued and other liabilities	<u>\$ 54,103</u>
TOTAL AGGREGATE INDEBTEDNESS	<u><u>\$ 54,103</u></u>
CAPITAL REQUIREMENT:	
Minimum requirement (greater of \$250,000 or 6-2/3% of aggregate indebtedness)	\$ 250,000
Net capital in excess of requirement	<u>5,858,756</u>
NET CAPITAL	<u><u>\$ 6,108,756</u></u>
RATIO OF AGGREGATE INDEBTEDNESS TO NET CAPITAL	<u><u>0.9 %</u></u>

February 22, 2002

Coutts Securities Inc.  
701 Brickell Avenue, Suite 2300  
Miami, Florida 33131

In planning and performing our audit of the financial statements of Coutts Securities Inc. (the "Company") for the year ended December 31, 2001, on which we issued our report dated February 22, 2002, we considered its internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the Company's internal control.

Also, as required by Rule 17a-5(g)(1) under the Securities Exchange Act of 1934, we have made a study of the practices and procedures (including tests of compliance with such practices and procedures) followed by the Company that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. We did not review the practices and procedures followed by the Company in making the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by Rule 17a-13 or in complying with the requirements for prompt payment for securities under Section 8 of Regulation T of the Board of Governors of the Federal Reserve System, because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control and of the practices and procedures, and to assess whether those practices and procedures can be expected to achieve the Securities and Exchange Commission's (the "Commission") above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized acquisition, use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in any internal control or the practices and procedures referred to above, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control or of such practices and procedures to future periods are subject to the risk that they may become inadequate because of changes in conditions or that the degree of compliance with the practices or procedures may deteriorate.

Our consideration of the Company's internal control would not necessarily disclose all matters in the Company's internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the consolidated financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the Company's internal control and its operation, including control activities for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the Commission to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2001 to meet the Commission's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the Securities and Exchange Commission, the National Association of Securities Dealers, and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

Yours truly,

*Deloitte & Touche LLP*